

SEMAFO INC.

Price (Sept. 8, 2009)	\$2.62
52-Week Range	\$2.74 - \$0.75
Shares O/S	250.59 million
Market Cap	\$656.5 million
50-day Average Volume	877,100
200-day Average Volume	1,095,600
Fiscal Year-End	December 31
Symbol	TSX: SMF
Website	www.semafo.com

Financial Data

(C\$000s)	Year Ending Dec 30/2008	Last 12 Mos. Jun 30/2009
Selected Income/(Loss)		
General Income (Expense) Items	(117,412)	(156,117)
Non-Discretionary G&A Expense	(10,682)	(11,365)
Net Income (Loss)	41,817	40,204
Comprehensive Income (Loss)	39,529	34,969
Selected Balance Sheet		
Cash & Equivalents	23,442	44,310
Mineral Properties	202,980	199,985
Shareholders' Equity	194,320	247,507
Total Assets	314,673	340,742
Enterprise Value	209,264	475,086
Key Ratios		
Monthly Cash Burn (\$)	890	947
Monthly Capex (\$)	3,424	2,449
Cash/OpEx (months)	26.3	46.8
Cash/OpEx + Capex (months)	5.4	13.0
Per Share (PS)		
Net Income Per Share	\$0.18	\$0.16
Cash Per Share	\$0.10	\$0.18
Mineral Properties Book Value PS	\$0.87	\$0.80
Net Asset Value (NAV) Per Share	\$0.60	\$0.79
Equity (Book Value) Per Share	\$0.84	\$0.99
Enterprise Value Per Share	\$0.90	\$1.90
Multiples		
Price/Cash (times)	9.93x	11.72x
Price/Mineral Properties (times)	1.15x	2.60x
Price/NAV (times)	1.66x	2.61x
Price/Book Value (times)	1.20x	2.10x
Price/Enterprise Value (times)	1.11x	1.09x

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Note: Report prepared with public information only.



Source: www.bigcharts.com

UPFRONT

We consider SEMAFO Inc. ("SEFAMO" or the "Company") to be an excellent vehicle to profit from a rising gold price. SEMAFO has management, mines, and money, and just waiting for higher gold prices. We think that time is now.

INVESTMENT CONSIDERATIONS

1. Strengths

- A gold producer that is totally un-hedged.
- Proven past record of success with 3 new gold mines in West Africa this decade.
- Good liquidity: US\$44.3 million in cash (C\$0.19 per share).
- Ability to self-fund ongoing requirements and eliminate debt by 2011.
- Shares may be included in S&P/TSX index, necessitating buying by Index Funds.
- Possible take-over candidate for larger corporate predators.
- Strong and stable executive and operational teams will attract/retain new members.
- CEO has leadership, vision, dedication, drive and enthusiasm.

2. Challenges

- Samira (Niger) and Kiniero (Guinea) mines are higher cost but a concern only if gold price falls.
- The gold price could decline.
- African politics often concern investors (offset by using a 10% discount rate).
- The possibility for mechanical problems related to mining and milling always exists.

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THE COMPANY

SEMAFO is a well-funded Canadian gold mining company with production in West Africa. It currently operates three gold mines, one in each of Burkina Faso, Niger, and Guinea.

OVERVIEW

Aggregate annual production from three gold mines in Burkina Faso, Niger, and Guinea is approximately 250,000 ounces. While reserves are sufficient for 8 years of production, the ongoing development of existing resources, together with exploration, have essentially replaced ore that has been mined.

COMMENT: *With highly prospective properties surrounding each of its three mines, SEMAFO should be able to continue to maintain and even grow its reserves for many years.*

With the smooth commissioning of the Mana operation in Burkina, the last twelve months have seen the transformation of SEMAFO into a solid intermediate gold producer that is completely un-hedged.

Although the Company has debt of US\$48 million, that debt is scheduled to be repaid by the end of 2011, and we believe this will be accomplished successfully. The balance sheet is in good condition, with the debt ratio more than adequate at 5 times interest coverage, and the current working capital ratio a satisfactory 2.5:1.

COMMENT: *This strong financial position provides a firm footing to capitalize on the Company's growing momentum for sustainable growth in West Africa. Having reached a steady financial state, and with its desirable exploration successes, the strong and stable core management team, to complement its strong exploration successes, is in an enviable position of being able to attract and retain an equally strong operating team to capitalize on opportunities as they arise.*

The recent increase from 40% to 80% in SEMAFO's ownership of the Samira operation in Niger is testament to management's ability to capitalize on distress. For a cash outlay of just \$3 million, SEMAFO added a million ounces of gold at an operating mine to its resource base. In addition, the Company gained greater operating flexibility at Samira as well as the possibility of reorganizing and, perhaps, growing this operation.

MINERAL RESERVES and PRODUCTION

The following table shows the mineral reserves and resources, as well as the annual production rates for SEMAFO's three gold-producing projects.

As shown, SEMAFO has proven and probable ("P & P") reserves of 1.78 million ounces, and a global resource of 5.90 million ounces. This should ensure that the Company will be able to continue producing for a number of years at the current annual rates of 140,000 ounces of gold at Mana, 65,000 ounces at Samara, and 35,000 ounces at Kiniero.

COMMENT: *Further production increases are probable, but there is nothing definite currently.*

Mines and Projects	Mana Burkina Faso	Samira Hill Niger	Kiniero Guinea	Company Total
Total P & P Reserves oz	908,600	631,100	236,400	1,776,100
Total M & I Resources oz	1,021,400	1,293,500	669,100	2,984,000
Total Reserves and Resources oz	1,930,000	1,924,600	905,500	4,760,100
Inferred Mineral Resources oz	508,200	608,100	24,900	1,141,200
Grand Total oz	2,438,200	2,532,700	930,400	5,901,300
Current Annual Production	140,000	65,000	35,000	240,000

Source: Company

MINING COSTS

SEMAFO's mining costs, based on actual results experienced in the first half of 2009, are set out in the following table.

Estimated Mining Production Costs (based on H1/2009; US\$ per oz gold)

Mining	\$475	65%
Administration	\$50	7%
Interest	\$23	3%
Royalty	\$38	5%
Sub-Total	\$586	80%
Amortization	\$147	20%
GRAND TOTAL	\$733	100%

Source: The Company

COMMENT: *Mining costs should decline modestly in 2010.*

Currently about US\$475 per ounce, mining costs should fall to about US\$440 per ounce in 2010 as Mana is hooked up to the national grid. Interest costs should also fall next year, and again in 2011 as debt is eliminated. Royalties are a function of the gold price and, while they may rise with the price of gold, the benefit to earnings of such a rise will more than compensate. The other major imponderables in predicting future mining costs are the price of oil and, to a lesser extent, that of re-agents. Ore grades and recoveries will fluctuate, but are assumed to remain close to the life-of-mine average for the purpose of forecasting.

COMMENT: *Money is made by correctly anticipating changes in those few factors and, in the extreme, the single factor upon which an investment decision turns. Once the change has happened, it is usually too late to invest as the price will also have moved.*

In the case of SEMAFO and any gold producer the three major factors to consider are **QQP**:

Quantity: i.e., of gold ounces in reserves and resources. Reserves tend to change slowly as resources are converted. Resources can change very quickly with exploration success but that is difficult to predict.

Quality: i.e., type and grade of reserves and resources ounces.

Price: i.e., where goes the price of gold? Excluding discoveries and takeovers, it is this parameter more than any other factor where changes can happen quickly and have to be correctly anticipated to be able to trade profitably.

SEMAFO's reserves, production, and costs are in a state of relative equilibrium and, over the next couple of years, should turn out as expected. The Company has done well in terms of controlling production and costs at Kiniero and Samira. It has also done well with a smooth start-up at Mana. The balance sheet has greatly improved over the last year and the elimination of the gold hedge makes the Company a prime beneficiary of a rising gold price. The elimination of debt by 2011 should add even more lustre to the balance sheet.

COMMENT: *All of these factors are widely known and are probably fully discounted in the share price.*

Resource additions and conversion to reserves will happen gradually as drilling progresses. These positive developments will be recognized over time if they add to the overall resource and reserve picture but, just to stand still, a gold producer must replace in exploration what it has mined each year.

MARKET ANTICIPATION

The following factors could impact the share value of SEMAFO: (1) A take-over by a larger company; (2) Exploration success; (3) An accretive acquisition; (4) Changes in the price of gold; and (5) Changes in the discount rate used by market participants as the price of gold rises and falls.

The following table shows how these factors affect SEMAFO's NPV, which assumes stable production until at least 2020.

NPV at:	Gold Price US\$/oz					
	\$900	\$950	\$1,000	\$1,100	\$1,250	\$1,500
10%	\$1.99	\$2.23	\$2.46	\$2.94	\$3.64	\$4.82
5%	\$2.74	\$3.06	\$3.38	\$4.02	\$5.96	\$6.58
0%	\$3.92	\$4.37	\$4.83	\$5.73	\$7.10	\$9.37

Source: eResearch

The shares of SEMAFO are currently trading at levels which are in line with its NPV using a gold price of US\$1,000 per ounce and a discount rate of 10%. On this basis, the shares reflect fair value. At a discount rate of 5% the shares would be considered under-priced. Thus, provided the gold price does not fall from here, the shares could be of interest to risk-tolerant investors who expect either, or both, of the gold price to rise and the discount rate to fall.

Using a gold price of US\$1,100 per ounce and a 5% discount rate the NPV would be \$4.02. At that point, the shares would probably be trading at or near a similar level. However, investors should not wait until the gold price rises and/or the lower discount rate is accepted by market participants. In addition, there always exists unpredictable benefits from exploration success or predatory action.

MARKET PARTICIPATION

As shown in the table above, a higher gold price positively impacts earnings, cash flow, and NPV. Furthermore, once the gold price begins to track upwards, there is a tendency for investors to start anticipating even more price increases. As money flows into gold funds, it has to be deployed. Initially, this tends to be into the larger, more liquid names, as there is always hesitancy about the longevity of a gold-price rally.

However, as time passes and shares continue to follow the gold price upwards, the mutual funds perform well and attract more cash inflows which are then deployed further and further down the food chain. As the medium and smaller capitalization companies begin to out-perform the larger ones, they become the darlings of the market. Interest in these smaller names is initially seen in new financings and bought deals as fund managers buy large positions without disturbing the market.

Once the industry is adequately funded, investment managers have no choice but to buy in the market place as cash inflows continue. Analysts will then tend to either or both increase their gold price expectations and lower their discount rates to justify the soaring stock prices.

This process of investing through the rear-view mirror is not particularly helpful to make money. Banks and regulatory authorities are even worse, insisting that companies value their gold reserves using a trailing three-year average gold price.

CONCLUSION

COMMENT: *The message is clear: "Buy Now" and await the changes. With the growing momentum of the past few years, SEMAFO is also unlikely to "rest on its oars" so additional production is probable through either or both of (a) organic growth and (b) the acquisition of smaller companies. Exploration success could also rapidly boost the share price.*

On the basis of what is known about **QQP** today, the shares represent fair value. The shares thus provide a good instrument with which to participate in a rising gold market. The Company also has a well-funded exploration program with considerable potential at all of its mine sites, which should make a meaningful contribution to reserves. Furthermore, SEMAFO controls over 5,000 sq km of highly prospective ground that has only recently begun to be tested. At Mana alone, there is over 90 km of continuous strike length to explore and SEMAFO is already contemplating underground development.

BOARD OF DIRECTORS

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Chairman of the Board,
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Gilles Masson, CA

Corporate Director

MAJOR SHAREHOLDERS

Sentry Select	19%
Jennison Natural Resources Fund	6%
Sprott Asset Management	4%
J.P. Morgan	4%
Tocqueville Asset Management	3%
SEMAFO Management	<u>4%</u>
Total	40%



CORPORATE INFORMATION

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SEMAFO's website hosts a Corporate Video and a Corporate Presentation. These may be accessed at:
http://www.semafo.com/corporate_presentation.html

SEMAFO's President and CEO, Benoit La Salle, hosts a video of the Company's Q2 results:
<http://www.semafo.com/video/Q2Commentary.html>

Information on the Company's Mineral Reserves is at:
http://www.semafo.com/operations_mineral_reserves.html

SEDAR

News announcements, press releases, and financial reporting on SEFAMO can be found on SEDAR:
<http://www.sedar.com/DisplayCompanyDocuments.do?lang=EN&issuerNo=00002563>

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